

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: June 18, 2014

TO: House Finance Committee

FROM: Sandra Johnson and Rodney Bizzell
Fiscal Research Division

RE: PCS to Senate Bill 790 (Second Edition)

FISCAL IMPACT (\$ in millions)						
	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> No Estimate Available			
State Impact	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	
General Fund Revenues:						
Electricity Sales Tax Phase-in	(0.23)					
PNG Sales Tax Phase-in	(2.2)					
Highway Trust Fund	(1.3)					
NET STATE IMPACT	(\$3.7)	\$0.0	\$0.0	\$0.0	\$0.0	
Local Revenues:						
Electricity Sales Tax Phase-in	(0.18)					
PNG Sales Tax Phase-in	(0.5)					
Property Tax Deferral	No Estimate Available - See Assumptions and Methodology					
NET LOCAL IMPACT	(\$0.7)	\$0.0	\$0.0	\$0.0	\$0.0	
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue;						
EFFECTIVE DATE: July 1, 2014						
TECHNICAL CONSIDERATIONS: None						

BILL SUMMARY:

Senate Bill 790 would phase-in the sale tax on sales of electricity by the Cape Hatteras Electric Membership Corporation over two years. This change is time sensitive because the law it seeks to change becomes effective July 1, 2014. The House PCS to Senate Bill 790 makes technical changes to this provision at the request of the Department of Revenue.

The House PCS to Senate Bill 790 also does the following:

- It would phase in the sales tax on sales of piped natural gas by the eight gas cities. The House passed this provision in its budget bill, Senate Bill 744, 7th edition, Section 37.4. This provision is time sensitive because the law it seeks to change becomes effective July 1, 2014.
- It would modify the infrastructure property tax deferral program, enacted last year as S.L. 2013-130.
- It would delay the change in the highway use tax base to include dealer administrative fees from July 1, 2014, to October 1, 2014. Both the House and Senate versions of the budget, Senate Bill 744, section 34.6, make this change. S.L. 2014-3 also made this change. This provision is time sensitive because the law becomes effective July 1, 2014.

Source: Committee Counsel

ASSUMPTIONS AND METHODOLOGY:**Phase-in of Cape Hatteras Sales Tax on Electricity**

Fiscal Research estimates that SB 790 will result in a General Fund revenue loss of \$0.23 million in FY 2014-15. The bill will also eliminate a \$0.18 million distribution to the municipalities served by the Cape Hatteras Electric Membership Corporation. This fiscal estimate is based on data gathered from the U.S. Energy Information Administration (EIA).

According to the EIA, the Cape Hatteras Electric Membership Corporation generated \$11.9 million in residential utility sales in 2012. The fiscal impact of applying a reduced sales tax rate on electricity of (3.5% instead of the full 7%) is \$0.41 million. After adjusting for inflation, accounting for the local distribution (44% of tax revenue from electricity sold within city limits is allocated to cities), the net loss to the General Fund is \$0.23 million.

Phase-in of Sales Tax on Piped Natural Gas for Gas Cities

Section 1(b) phases-in the 7% sales tax rate on gross receipts derived from sales of piped natural gas by the eight gas cities over two years, effective July 1, 2014. This two year phase-in is expected to reduce General Fund availability by \$2.2 million in FY 2014-15.

The sales and use tax on piped natural gas generates an estimated \$103 million in total sales tax revenue per fiscal year. Of this revenue, the non-industrial “gas city” piped natural gas sales represent 5 percent of North Carolina’s total non-industrial sales. Table 1 provides more detail.

Effective July 1, 2014, the combined general rate of sales tax (7%) applies to the gross receipts derived from the sale of piped natural gas. Currently, piped natural gas is subject to a per therm excise tax. S.L. 2013-316 replaced the excise tax on piped natural gas, effective July 1, 2014, with a sales tax equally applicable to all consumers of piped natural gas. Subsection (a) of this section

would phase-in the sales tax rate on sales of piped natural gas by gas cities over a two-year period. The sales tax rate would be 3.5%, effective July 1, 2014; and 7%, effective July 1, 2015.

Gas Cities (G.S. 105-187.40)	Share of NC's Residential Gas Volume	Taxes Paid by Customers HB 998 FY 2014-15 (\$)	Share of NC's Gas Local Distribution Revenue FY 2014-15 (\$)
Bessemer City	0.1%	68,522	13,704
Greenville	1.2%	1,242,129	248,426
Kings Mountain	0.2%	242,687	48,537
Lexington	0.6%	572,284	114,457
Monroe	0.6%	626,011	125,202
Rocky Mount	1.1%	1,151,714	230,343
Shelby	0.5%	536,338	107,268
Wilson	0.9%	964,127	192,825
Total for Gas Cities	5%	\$5,403,812	\$1,080,762
Total for North Carolina (HB 998)	100%	\$102,300,000	\$20,460,000

Property Tax Deferral Program

Section 2 would modify a property tax deferral program enacted last year which allows for a deferral of up to 5 years of taxes for infrastructure sites developed for future industrial or office construction. The PCS removes the current requirement that the property be enrolled in the Present Use Value (PUV) program. This change will increase the number of eligible properties; however, the number of properties that will qualify is unknown and a fiscal estimate cannot be determined.

Highway Use Tax

Section 3 makes a conforming change per the enacted adjustments in Section 6.1(g) of S.L. 2014-3, which extends the effective date of Highway Use Tax adjustments to October 1, 2014. This extension is expected to reduce Highway Trust Fund revenues by approximately \$1.25 million in FY 2014-15.

SOURCES OF DATA: Energy Information Administration and NC Department of Revenue

TECHNICAL CONSIDERATIONS: None